

Class Paper 4

Healthcare Economics:

Characteristics of the Healthcare Market

Supply, Demand, Competition, and Equity

Policy and Regulation Implications

THE EXECUTIVES

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Introduction

The present American healthcare system is in a state of numerous disturbances and imbalances. It appears that all its components are rapidly changing without a clear focus on how to balance our allocation of resources. Allocation of scarce resources is a major issue considering that healthcare expenditures in the U.S. have risen from \$27.6 billion in 1970 to \$587.2 billion in 2000. Competitive markets have revolutionized the health care system and its modes of deliveries and business techniques, while creating new demands. These changes coupled with the demand for increased quality and benefits at decreased cost are responsible for the current competition within the healthcare system. Difficult resource allocation decisions need to be made to decrease the continued risk of these imbalances.

The management of scarce resources and the science of economics are intrinsically linked. Economics gives the health care manager the tools necessary to focus on data needed to make rational decisions allowing for making sense of cost and the ability to meet consumer demand with the available resources at hand. Economics helps managers study and analyze the allocation of these scarce resources.

Challenges exist to measure this competition. First, there is no agreeable method on how to measure it. Second, obtaining accurate data and a clearly defining terms and services is difficult.

This paper will address various methods used to allocate scarce resources in terms of quality, outcomes, efficiency, and equity and how the system can improve its performance.

Present system allocations

The allocation of our scarce resources is dependent on how a society values health. Valuation of health is necessary for rational allocation of resources.

Resource allocation in American health care takes many forms. The combined resultant methodology lays somewhere on a linear between the free market and social justice models, but definitively weighting more toward the free-market side. The social justice model employs a rational approach to resource allocation by tied means to a set of established needs. In contrast, the free-market system is characterized by lack of societal needs, as resource allocation is based on supply and demand.

It is a market driven system that should idealistically produce the most product at the lowest price. "It rests on the premise that the unrestrained interaction of competitive forces will yield the best allocation of our economic resources, the lowest prices, the highest quality and the greatest material progress, while at the same time providing an environment conducive to the preservation of our democratic political and

social institutions." (A.B. Bernstein,1998) Society has determined how much and what to provide primarily by providing whatever the system is willing to pay. Our society can provide basic health care to all, but not without loss to most producers, consumers, decreased quality, restrained access to care, long waiting periods, and increased taxes.

There is a need to closely examine how we do health business. Our health care industry has created a demand, its' products. Health care providers lean towards their interventions and obviously recommend their use whenever it is applicable as their businesses benefit from such interventions. This close examination is critical because in health care, providers are consumers, agents, and product retailers.

Implications of our current allocations

One of the major health imbalances in the U.S. is unequal access to care. Many consumers lack basic health care coverage. How do we provide for this segment of our population? Many industrialized countries offer their population universal coverage. The U.S. has partially addressed this gap with government-regulated programs like Medicaid, and to some extent Medicare, and VA (these entitlement programs require a prior contributions, taxes and service time respectively, but are were originally based on social justice principles).

Medicare, a mandatory coverage, receives funds from our hard working paychecks. The increased growth of our aged population, and the philosophy I paid for it, it's mine, and I want it, has created many of the present problems with inappropriate allocations of funds. Senior citizens, a strong political group, have enough political power to make changes and get additional benefits. These changes and other funded programs from Medicare's pot caused this coverage to spiral out of control. Some potential solutions for these trends include: limit benefits to provision of basic health care coverage, eliminate special coverage of medications, and increase age of eligibility. There are many wealthy seniors who are receiving Medicare benefits and need not to depend on this benefit while others are barely able to afford what is given. Should there be a different way for Medicare benefits distribution per income level and input?

If we want to provide universal access to health care and if it is the morally right thing to do then we must look at adopting policy guided by social justice model. Health care inequalities can lead to the belief that it is not fair that the consumer is not equal in the amount of goods, life expectancy, and quality.

The higher socioeconomic status (SES) consumer might have the availability of resources that offer them information or referrals to better services, providers, and care which leads to the inequity of available resources and access to care. This inequity can be the result of certain disadvantaged populations having little political power. A plan for redistribution of

funds to address this inequity is needed to improve population health in the United States.

Improved health can be achieved by allocating resources to education. Educational level is linked with better health outcomes and decreases consumer vulnerability. Educational level has been shown in some studies to be health protective. An additional year of formal education reduces mortality by about 8%. In addition, many consumers are poorly informed about their health and thus lack the knowledge to make educated decisions. More often than not, consumers depend on the advice of their health care providers. Certainly this situation leads to providers' biases. These biases might or might not be in consumers best interests as the provider's commitments and loyalties are fully engaged in this process. Funds would need to be allocated toward a better educational system including increase training, prevention, and community education programs.

The National Longitudinal Mortality Study showed that in 1980 family income less than \$5,000 to have a life expectancy about 25% lower than those whose family incomes that were above \$50,000. Many would argue this point by indicating that lower SES are helpless in their situation, hold labor jobs and indulge in pleasures like alcohol and tobacco. Should the population be responsible for poor health related to the behaviors of a few? This type of long-term care involves government policy, different levels of insurance coverage and personal responsibility. This

would include a general income tax, tax credits and increase of minimum wage.

Risky types of behaviors need to be addressed in relationship to their educational and financial burdens. Currently, the health care sector is changing from infectious to chronic diseases. Allocation of funds is needed to shift the view of taking care of health concerns to the effect of health.

With the advent of the insurance boom, abuse of office visits, specialty referrals, and providers taking their share became a norm. Control measures are needed to limit the use of services. Allocations of funds to policy making can decrease cost by offering alternatives to service, treatment, and type of facility. Services should not be free, everyone should pay something. The consumer does not know the cost of healthcare. Responsibility for payment might get the consumer to realize this cost. Public validation of services and benefits need to be measured and what they are willing to buy and at what price.

How can the U.S. system improve its allocation of resources?

The main reason we have not established universal access to care is the tension that exist in our society between individual freedom and equality. Fuchs (1993) argues that the reason we don't have a national health insurance mechanism lies in our distrust for government, population heterogeneity, and lack of noblesse oblige. Because so many Americans from humble origin

have gained wealth thru hard work they are less sympathetic to others that have not achieved economic freedom. Corrections made in our present system need to tip toward the social justice system as a more rational approach for allocation of funds to provide the most good for the majority. Those benefiting from the system now, the insured, providers, drug companies, and hospital will have to bear some growing pains. If the elimination of differences by redistribution of funds to provide a more equal level was the answer, this would cause the increased wealth of the poor and reduce the wealth of the rich so the loss of health of the rich would need to be weighted against the gains of the poor. Allocating funds to address the poor is needed but not at the expense of causing more health problems in the higher SES.

If a redistribution of the tax system was considered, the wealthy will lose more than one dollar for each dollar redistributed to the poor. The readings suggest a procedure of a marginal tax on the consumer and using the proceeds to pay the consumer a fixed monthly benefit and all consumers get the same benefits this would however redistribute income from the rich to the poor. This would bring our system closer to the social justice side of the pendulum. The tax hike required would prove politically unpopular.

Reallocating funds must address the provisions of insurance policies, access to care, level of care, available services, staff policies, and employment contracts. The need and

availability for any health service needs to be balanced so it is priced to provide quality of care and still show a profit.

The reallocating of funds from supply to demand is necessary to review what the needs are compare to the demands, services, and products in relations to cost of purchase.

Allocation of funds to a stewardship, not controlled, can possibly reduce the abuse of cost without lost of autonomy, accountability, market exposure, earned revenues, reasonability of profits and loses. Direct attention should be focused on how our resources are matched to their function. Market power price control is necessary to provide for allocating resources to reflect the opportunity cost of using a good or service the price needs to reflect a marginal cost.

Conclusion

Our system has centered on the concept "he who has the dollar will get the care" (the individual above the population). Throughout the years, the free-market has gained control of our health care system and all sectors responded to it as a business for profit. Financial resources are necessary to effectively deliver health care. These scarce resources must be balanced and allocated appropiately to meet the supply and demand. There is a need to better define what our needs are and how much of our resources we are willing to use to fulfill these needs. These

resources need to be allocated towards a continuous integrated plan of matching cost to quality, access, and needs.

The consensus of our group is that a true free market or social justice will not work. There is a need to look at the outcomes of our present system that caused the imbalances of quality, efficiency, and equity and take a look at what makes the social justice work and strive for a balanced mixture.

The consumers have the most power and can be the political power necessary to make changes. New choices must be made to decrease the risk of future imbalances. The system needs to improve wellbeing not just improve income or health. Continued research, debate, and political aim are necessary for the ability of our health care market to move toward an efficient equilibrium and best serve the population.